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Consumer Sales and Use Tax Questions

Q. *I purchased property on the Internet and was charged tax. Isn't the Internet exempt from tax?*

A. There are many proposals to keep the Internet free from taxation. However, they are not referring to sales tax. Rather, they are referring to taxes on fees charged by Internet service providers, much like the taxes and fees imposed on your telephone bill. When tangible personal property is purchased on the Internet, it is subject to either sales or use tax.

Q. *Why must I pay tax on my “free” cellular phone?*

A. “Free” cellular phones are taxable when the retailer requires you to purchase a service agreement in order to get the phone. Tax is based on the fair retail selling price of the phone, that is, the price at which the retailer would sell the phone without the service agreement.

Q. *Are tips subject to tax?*

A. When a tip is optional it is not subject to tax. If the tip is mandatory (required to be paid by the customer) it is taxable.

Q. *I ordered a product through a catalog and was charged tax on the shipping and handling. Are shipping and handling charges taxable?*

A. Charges for handling are considered “a service related to the sale” and are subject to tax. Only the actual amount paid by the retailer for shipping may be exempt from tax. The retailer must be able to identify the actual cost of shipping for tax not to apply.

Q. *Is CRV taxable?*

A. The charge for California Redemption Value (CRV) is not a deposit, but a fee imposed on the distributor of the beverage. The fee is passed along to the retailer and to you as the consumer. Although separately stated, the fee is subject to tax as part of the taxable selling price of the beverage.

Q. *When is labor taxable?*

A. There are three types of labor: fabrication, installation and repair. The creation or fabrication of new property is subject to tax. However, installation and repair labor are generally excluded from tax.

Q. *Is ice cream subject to tax?*

A. Ice cream is subject to tax when it is sold and consumed on the retailer's premises. Generally, when ice cream is sold "to-go," it is not subject to tax.

Q. *I recently purchased a refrigerator that was delivered to my home. Is the delivery fee taxable?*

A. Delivery charges are usually taxable when retailers use their trucks or vehicles to deliver the merchandise. Delivery charges are generally not taxable when the charges are itemized, the retailer arranges for a third party to deliver the property, and the retailer's charge for delivery does not exceed their cost.

Q. *If I purchase a car, boat, or airplane out of state for personal use, and bring it into California, will I have to pay tax?*

A. Yes, unless the property is used solely outside of California for more than 90 days after its purchase. If the property is brought into California before the end of this 90 day period, then generally tax will not apply if the property is used and/or stored one half or more of the time outside of California during the 6 months immediately following its entry into California.

Q. *If I paid tax in another state on my out-of-state purchase of a car, boat, or airplane, can California still tax my storage or use of that property in California?*

A. Yes. If tax otherwise applies to your storage or use of the property in California (See Question 9), you still owe that tax even if you paid tax in another state. However, a credit for the amount of tax paid to the other state (not to exceed the California tax due) is generally available.

More Questions?
Check out the BOE website at
<http://www.boe.ca.gov/sutax/faqscont.htm>
or
Call 800-400-7115

Note: This pamphlet summarizes the law and applicable regulations in effect as of March, 2003. However, changes in the law or in regulations may have occurred since that time. If there is a conflict between the text in this pamphlet and the law, the latter is controlling.

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